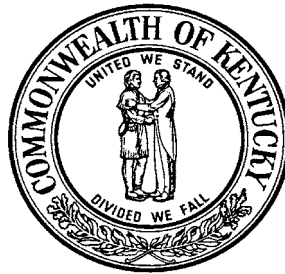


**REPORT OF THE AUDIT OF THE
HARRISON COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2002**



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE HARRISON COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2002**

The Auditor of Public Accounts has completed the Harrison County Fiscal Court audit for fiscal year ended June 30, 2002. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Fund balances decreased by \$4,093,543 from the beginning of the year, resulting in a cash surplus of \$3,562,451 as of June 30, 2002. \$3,776,708 of the \$4,093,543 decrease was the result of the expenditures of bond proceeds for the construction of the Justice Center

Debt Obligations:

Total bonded debt principal as of June 30, 2002, was \$6,075,000. Future collections of \$8,264,251 are needed over the next 19 years to pay all bonded debt principal and interest.

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities or bonds.

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Dean Peak, Harrison County Judge/Executive
Members of the Harrison County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and fund balances arising from cash transactions of Harrison County, Kentucky, as of June 30, 2002, and the related statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of the Harrison County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Harrison County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and fund balances arising primarily from cash transactions as of June 30, 2002 of Harrison County, Kentucky, and the revenues received and expenditures paid for the year then ended, in conformity with the modified cash basis of accounting.



To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Dean Peak, Harrison County Judge/Executive
Members of the Harrison County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated May 1, 2003 on our consideration of Harrison County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Harrison County, Kentucky. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
May 1, 2003

HARRISON COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2002

Fiscal Court Members:

Dean Peak	County Judge/Executive
Stanley Lemons	Magistrate
Frankie Taylor	Magistrate
Charles Marshall	Magistrate
Jerry Dawson	Magistrate
Robert Lake	Magistrate
Alexander Barnett	Magistrate
Mike Brogli	Magistrate
James Darryl Rainey	Magistrate

Other Elected Officials:

Charles W. Kuster, Jr.	County Attorney
Willard L. Turner	Jailer
Ralph E. Coppage	County Clerk
Wanda Marsh	Circuit Court Clerk
Bruce Hampton	Sheriff
Jerry Casey	Property Valuation Administrator
Tom Ware	Coroner

Appointed Personnel:

Deborah Martin	County Treasurer
Sherry Judy	Occupational Tax Collector
Wanda Jones	Deputy Judge/Executive

STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

HARRISON COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

June 30, 2002

	<u>Governmental Fund Type</u>			
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	
<u>Assets and Other Resources</u>				
<u>Assets</u>				
Cash and Cash Equivalents	<u>\$ 1,799,452</u>	<u>\$ 342,793</u>	<u>\$ 1,170,546</u>	.
Total Assets	<u>\$ 1,799,452</u>	<u>\$ 342,793</u>	<u>\$ 1,170,546</u>	.
<u>Other Resources</u>				
Amounts to Be Provided In Future Years For:				
Bond Payments	<u>\$</u>	<u>\$</u>	<u>\$ 6,075,000</u>	.
Total Other Resources	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 6,075,000</u>	.
Total Assets and Other Resources	<u><u>\$ 1,799,452</u></u>	<u><u>\$ 342,793</u></u>	<u><u>\$ 7,245,546</u></u>	.

The accompanying notes are an integral part of the financial statements.

HARRISON COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS
June 30, 2002
(Continued)

Fiduciary Fund Type	Totals (Memorandum Only) Primary Government
Trust and Agency	
\$ 250,207	\$ 3,562,998
\$ 250,207	\$ 3,562,998
\$	\$ 6,075,000
\$ 0	\$ 6,075,000
\$ 250,207	\$ 9,637,998

The accompanying notes are an integral part of the financial statements.

HARRISON COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS
June 30, 2002
(Continued)

	<u>Governmental Fund Type</u>		
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>
<u>Liabilities and Equity</u>			
<u>Liabilities</u>			
Payroll Revolving Account	\$ 547	\$	\$
Bonds:			
Series 2001 (Note 4)			6,075,000
Total Liabilities	<u>\$ 547</u>	<u>\$ 0</u>	<u>\$ 6,075,000</u>
<u>Equity</u>			
Fund Balances:			
Reserved	\$	\$ 342,793	\$ 1,170,546
Unreserved	<u>1,798,905</u>		
Total Equity	<u>\$ 1,798,905</u>	<u>\$ 342,793</u>	<u>\$ 1,170,546</u>
Total Liabilities and Equity	<u><u>\$ 1,799,452</u></u>	<u><u>\$ 342,793</u></u>	<u><u>\$ 7,245,546</u></u>

The accompanying notes are an integral part of the financial statements.

HARRISON COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS
June 30, 2002
(Continued)

<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only) Primary Government</u>
<u>Trust and Agency</u>	
\$	\$ 547
	<u>6,075,000</u>
<u>\$ 0</u>	<u>\$ 6,075,547</u>
<u>\$ 250,207</u>	<u>\$ 1,763,546</u> <u>1,798,905</u>
<u>\$ 250,207</u>	<u>\$ 3,562,451</u>
<u><u>\$ 250,207</u></u>	<u><u>\$ 9,637,998</u></u>

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

HARRISON COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

For The Fiscal Year Ended June 30, 2002

	<u>General Fund Type</u>			
	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 5,000,220	\$ 2,852,635	\$ 1,026,519	\$ 112,675
Other Financing Sources:				
Transfers In	1,115,006	3	825,000	266,000
Kentucky Advance Revenue Program	<u>1,597,700</u>	<u>1,597,700</u>		
Total Cash Receipts	<u>\$ 7,712,926</u>	<u>\$ 4,450,338</u>	<u>\$ 1,851,519</u>	<u>\$ 378,675</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 5,164,717	\$ 1,874,415	\$ 1,909,069	\$ 373,563
Other Financing Uses:				
Schedule of Public Properties				
Corporation Expenditures	3,929,046			
Transfers Out	1,115,006	1,115,003		
Kentucky Advance Revenue Program Repaid	<u>1,597,700</u>	<u>1,597,700</u>		
Total Cash Disbursements	<u>\$ 11,806,469</u>	<u>\$ 4,587,118</u>	<u>\$ 1,909,069</u>	<u>\$ 373,563</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ (4,093,543)	\$ (136,780)	\$ (57,550)	\$ 5,112
Cash Balance - July 1, 2001	<u>7,655,994</u>	<u>1,793,639</u>	<u>175,485</u>	<u>18,999</u>
Cash Balance - June 30, 2002	<u>\$ 3,562,451</u>	<u>\$ 1,656,859</u>	<u>\$ 117,935</u>	<u>\$ 24,111</u>

The accompanying notes are an integral part of the financial statements.

HARRISON COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES
For The Fiscal Year Ended June 30, 2002
(Continued)

General Fund Type	Special Revenue Fund Type		Trust and Agency Fund Type	Debt Service Fund Type
Local Government Economic Assistance Fund	Federal Grants Fund	E-911 Fund	Shropshire Fund	Public Properties Corporation
\$ 267	\$ 541,628	\$ 287,673	\$ 26,485	\$ 152,338
	24,003			
<u>\$ 267</u>	<u>\$ 565,631</u>	<u>\$ 287,673</u>	<u>\$ 26,485</u>	<u>\$ 152,338</u>
\$ 39,006	\$ 557,758	\$ 383,956	\$ 26,950	\$
	3			3,929,046
<u>\$ 39,006</u>	<u>\$ 557,761</u>	<u>\$ 383,956</u>	<u>\$ 26,950</u>	<u>\$ 3,929,046</u>
\$ (38,739)	\$ 7,870	\$ (96,283)	\$ (465)	\$ (3,776,708)
38,739	45,844	385,362	250,672	4,947,254
<u>\$ 0</u>	<u>\$ 53,714</u>	<u>\$ 289,079</u>	<u>\$ 250,207</u>	<u>\$ 1,170,546</u>

The accompanying notes are an integral part of the financial statements.

HARRISON COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2002

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Harrison County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the criteria stated in GASB 14, management has included the Harrison County Public Properties Corporation as part of the reporting entity.

Harrison County Public Properties Corporation:

The Harrison County Public Properties Corporation cannot be sued in its own name without recourse to the Harrison County Fiscal Court, who appoints a voting majority consisting of the fiscal court members and the County Attorney. The fiscal court is able to impose its will on the Corporation. The Corporation is created solely for the benefit of the fiscal court per KRS 58.180 to act as the agency in the acquisition and financing of any public project. The fiscal court has access to the Corporation's resources, is legally obligated to finance the debts of or provide financial support to the Corporation. The Corporation is financially accountable to the fiscal court. This component unit is blended within the financial statements of the county.

Additional - Harrison County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Harrison County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Harrison County Fiscal Court's fund types, a definition of each, and county funds included within each fund type are listed below.

HARRISON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Harrison County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, and Local Government Economic Assistance Fund (LGEA).

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Harrison County Special Revenue Fund Type includes the following county funds: Federal Grants Fund and the E-911 Fund.

3) Debt Service Fund Type

Debt Service Fund Type accounts for the accumulation of resources for the payment of general long-term debt principal and interest and includes funds for the Public Properties Corporation Fund.

4) Trust and Agency Fund Type

Trust and Agency Fund Type accounts for assets held by a governmental unit in trustee capacity or as agent. The Shropshire Fund is reported as a Trust and Agency Fund Type.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables and deferred revenue. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided in future years.

HARRISON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Legal Compliance - Budget

The Harrison County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Public Properties Corporation Fund because bond indentures and other relevant contractual provisions require specific payments to and from this fund annually and payments are being made by the Administrative Office of the Courts to comply with these requirements. The Department for Local Government does not require this fund to be budgeted.

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. Investments may include certificates of deposit on the financial statements; however, for the purpose of disclosing credit risk (Note 3), investments exclude certificates of deposit.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Joint Ventures

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Harrison County has entered into joint ventures with the city of Cynthia for the following enterprises: Cynthia/Harrison County Public Properties Corporation, Cynthia/Harrison County Industrial Authority, and Cynthia/Berry/Harrison County E-911.

HARRISON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system, which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.41 percent. Hazardous covered employees are required to contribute 7 percent of their salary to the plan. The county's contribution rate for hazardous employees was 16.28 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2002, the county's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond.

HARRISON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 4. Long-Term Debt

On February 7, 2001, the Harrison County Public Properties Corporation issued \$6,075,000 in First Mortgage Revenue Bonds, Series 2001, for the purpose of constructing a Justice Center. The bond issue covers a twenty-year period with an annual principal payment due each March 1, beginning March 1, 2003. Interest is payable semi-annually each September 1 and March 1, beginning September 1, 2001. The county subsequently entered into a sub-lease agreement with the Administrative Office of the Courts in order to provide funding to meet annual debt service requirements. The total principal balance outstanding was \$6,075,000 as of June 30, 2002.

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2003	\$ 273,338	\$ 195,000
2004	265,538	200,000
2005	257,538	210,000
2006	249,138	220,000
2007	240,337	230,000
2008-2012	1,046,074	1,310,000
2013-2017	726,922	1,670,000
2018-2022	300,912	2,040,000
Totals	<u>\$ 3,359,797</u>	<u>\$ 6,075,000</u>

Note 5. Commitments and Contingencies

A. Cynthiana/Harrison County Public Properties Corporation

In June 1995, the Harrison County Fiscal Court (the County) and the City of Cynthiana (the City) formed the Cynthiana/Harrison County Public Properties Corporation (the Corporation) for the acquisition and financing of the Cynthiana/Harrison County Community Service Building project. Upon formation of the Corporation, individual and corporate donations were received and the City received a \$350,000 CDBG grant to construct the community service building. The donations and grant were expected to be approximately \$500,000 short of the anticipated construction costs. The Corporation executed a loan agreement with Farmers National Bank to draw up to \$499,000 in order to complete the project. The rent collected from several community service organizations is used to service the debt. The Corporation is managed by the City, and there has been no audit performed for the Corporation in the past five (5) years. We recommend that an audit be performed. Should the Corporation default on the loan at Farmers National Bank, the county could ultimately be responsible for one-half of the outstanding liabilities. As of June 30, 2002, the outstanding liability was \$460,755.

HARRISON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

B. Cynthiana/Harrison County Industrial Authority

In January 1999, Harrison County Fiscal Court (the County) adopted a resolution, which obligates the county (in conjunction with the City of Cynthiana's matching offer) to cover fifty percent of any expenses "not covered from net sales proceeds of land by the Cynthiana/Harrison County Industrial Authority" (the Authority). This obligation was made in support of the Authority's project to develop an industrial park in Harrison County. In this resolution, the County also committed "the sum of two hundred fifty thousand (\$250,000) dollars" in order for the Authority to receive an additional one and one-half million (\$1,500,000) dollar federal grant. The County's commitment represents one-half of the matching funds needed (in conjunction with the City's matching offer) for the Authority to receive the additional funding. The Authority obtained an \$800,000 loan for the purchase of the land for the project. As of June 30, 2002, the outstanding liability on the loan was \$786,240. As of the audit date, the County had distributed approximately two hundred fifty thousand (\$250,000) dollars to the Authority.

C. Cynthiana/Berry/Harrison County E-911

In April 1999, Harrison County Fiscal Court (the County) passed an ordinance for "the establishment of an Enhanced 911 Emergency Telephone Service within Cynthiana and Harrison County, Kentucky." An E-911 Advisory Board (the Board) was created with the City of Cynthiana (the City) and the County equally represented on the Board. The City and County subsequently entered into an interlocal agreement which states, in part, "The cost of the E-911 program shall be funded from the receipts from a telephone service surcharge, which has been levied by the County to be collected by the appropriate telephone operating company on each eligible business and residential telephone line operating within Harrison County. The County may fix or change the rate of the telephone surcharge to be applied, but it shall be sufficient to meet the budgetary requirements for the operation of the E-911 program. If at any time moneys collected from the telephone surcharge are insufficient to meet the needs and obligations of the Board for the operation of the E-911 program, the remaining costs shall be apportioned evenly (50/50) between the City and the County and immediately forwarded to the Harrison County Treasurer for use by the Board in the operation of the Center." On March 25, 2003, the county amended the E-911 ordinance, increasing the assessment fee from \$2.50 per month for each telephone line within the City and County, to \$4.00 per month for each telephone line within the City and County. As of the audit date, the system had been implemented, and the fee appears to have covered the operating expenses of the E-911 program at this time.

Note 6. Insurance

For the fiscal year ended June 30, 2002, Harrison County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

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COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

HARRISON COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2002

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 2,888,633	\$ 2,852,635	\$ (35,998)
Road and Bridge Fund	1,154,497	1,026,519	(127,978)
Jail Fund	452,487	112,675	(339,812)
Local Government Economic Assistance Fund	1,001	267	(734)
<u>Special Revenue Fund Type</u>			
Federal Grants Fund	572,580	541,628	(30,952)
E-911 Fund	278,500	287,673	9,173
<u>Trust and Agency Fund Type</u>			
Shropshire Fund	<u>23,000</u>	<u>26,485</u>	<u>3,485</u>
Totals	<u>\$ 5,370,698</u>	<u>\$ 4,847,882</u>	<u>\$ (522,816)</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 5,370,698
Add: Budgeted Prior Year Surplus			<u>1,687,479</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			<u>\$ 7,058,177</u>

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SCHEDULE OF OPERATING REVENUE

HARRISON COUNTY
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2002

Revenue Categories	Totals (Memorandum Only)	GOVERNMENTAL FUND TYPES			FIDUCIARY FUND TYPES
		General Fund Type	Special Revenue Fund Type	Debt Service Fund Type	Trust and Agency Fund Type
Taxes	\$ 2,486,906	\$ 2,268,821	\$ 218,085	\$	\$
In Lieu Tax Payments	3,810	3,810			
Excess Fees	61,840	61,840			
Licenses and Permits	1,316	1,316			
Intergovernmental Revenues	2,044,282	1,444,872	599,410		
Charges for Services	13,475	13,475			
Miscellaneous Revenues	109,096	93,154	485		15,457
Interest Earned	279,495	104,808	11,321	152,338	11,028
Total Operating Revenue	<u>\$ 5,000,220</u>	<u>\$ 3,992,096</u>	<u>\$ 829,301</u>	<u>\$ 152,338</u>	<u>\$ 26,485</u>

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

HARRISON COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2002

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 1,567,713	\$ 821,019	\$ 746,694
Protection to Persons and Property	759,131	664,646	94,485
General Health and Sanitation	321,500	290,919	30,581
Social Services	114,632	79,739	34,893
Recreation and Culture	189,450	71,698	117,752
Roads	1,789,597	1,758,953	30,644
Airports	477,250	19,611	457,639
Bus Service	14,750	14,748	2
Other Transportation Services	2,000	2,000	
Capital Projects	254,475	116,034	138,441
Administration	462,594	356,686	105,908
TOTAL BUDGET - ALL GENERAL FUND TYPES	<u>\$ 5,953,092</u>	<u>\$ 4,196,053</u>	<u>\$ 1,757,039</u>

HARRISON COUNTY
 COMPARATIVE SCHEDULE OF
 FINAL BUDGET AND BUDGETED EXPENDITURES
 For The Fiscal Year Ended June 30, 2002
 (Continued)

<u>SPECIAL REVENUE FUND TYPE</u>			
<u>Expenditure Categories</u>	<u>Final Budget</u>	<u>Budgeted Expenditures</u>	<u>Under (Over) Budget</u>
Protection to Persons and Property	\$ 452,500	\$ 383,383	\$ 69,117
General Health and Sanitation	510,000	510,000	
Social Services	30,524	22,458	8,066
Capital Projects	50,005	23,666	26,339
Administration	28,056	2,207	25,849
 TOTAL BUDGET - SPECIAL REVENUE FUND TYPE	 \$ 1,071,085	 \$ 941,714	 \$ 129,371

<u>TRUST AND AGENCY FUND TYPE</u>			
<u>Expenditure Categories</u>	<u>Final Budget</u>	<u>Budgeted Expenditures</u>	<u>Under (Over) Budget</u>
General Health and Sanitation	\$ 34,000	\$ 26,950	\$ 7,050
 TOTAL BUDGET - TRUST AND AGENCY FUND TYPE	 \$ 34,000	 \$ 26,950	 \$ 7,050

SCHEDULE OF PUBLIC PROPERTIES CORPORATION EXPENDITURES

HARRISON COUNTY
SCHEDULE OF PUBLIC PROPERTIES CORPORATION EXPENDITURES

For The Fiscal Year Ended June 30, 2002

<u>Expenditure Items</u>	<u>Public Properties Corporation</u>
Construction Costs	\$ 3,632,930
Interest Paid on Bonds	<u>296,116</u>
Total	<u><u>\$ 3,929,046</u></u>

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Dean Peak, Harrison County Judge/Executive
Members of the Harrison County Fiscal Court

**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of Harrison County, Kentucky, as of and for the year ended June 30, 2002, and have issued our report thereon dated May 1, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Harrison County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Harrison County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than the specified parties.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
May 1, 2003



REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Dean Peak, Harrison County Judge/Executive
Members of the Harrison County Fiscal Court

**Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133**

Compliance

We have audited the compliance of Harrison County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2002. Harrison County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Harrison County's management. Our responsibility is to express an opinion on Harrison County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Harrison County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Harrison County's compliance with those requirements.



Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

In our opinion, Harrison County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002.

Internal Control Over Compliance

The management of Harrison County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Harrison County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
May 1, 2003

FINDINGS AND QUESTIONED COSTS

HARRISON COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Fiscal Year Ended June 30, 2002

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Harrison County.
2. No reportable conditions relating to the audit of the financial statements are reported in the Independent Auditor's Report.
3. No instances of noncompliance material to the financial statements of Harrison County were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Harrison County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for Harrison County reported in Part C of this schedule.
7. The program tested as a major program was: Community Development Block Grant – Phase 9B Water Extension Project
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Harrison County was not determined to be a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

REPORTABLE CONDITIONS

None.

NONCOMPLIANCES

None.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARDS PROGRAM
AUDIT

None.

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

HARRISON COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2002

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
Cash Programs:		
U.S. Department of Housing and <u>Urban Development</u>		
Passed-Through State Department for Local Government:		
Community Development Block Grants- Phase 9B Water Extension Project (CFDA # 14.228)	99-023	\$ 486,000
<u>U.S. Department of Justice</u>		
Passed-Through State Department of : Juvenile Justice		
Juvenile Accountability Block Grant Funding - Youth Community Service Work Program (CFDA #16.523)	2000-JB-VX-0021 (204)	11,244
Juvenile Accountability Block Grant Funding - Youth Community Service Work Program (CFDA #16.523)	2001-JB-BX-0021 (209)	12,847

HARRISON COUNTY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For The Fiscal Year Ended June 30, 2002
 (Continued)

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<u>U. S. Federal Emergency Management Agency</u>		
Passed-Through State Department of Military Affairs:		
Disaster and Emergency Assistance Grants- 2001 Severe Weather (CFDA #83.516)	FEMA-1388-DR	\$ 14,139
Harrison County Hazard Mitigation Grant Program (CFDA #83.548)	FEMA 1163-DR-KY-013	23,666
Emergency Management Assistance Grants- (CFDA # 83.552)		<u>5,428</u>
Total Cash Expenditures of Federal Awards		<u><u>\$ 553,324</u></u>

HARRISON COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2002

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Harrison County, Kentucky and is presented on a modified cash basis of accounting.

Note 2 - As required by The Community Block Grant agreement, all program moneys received by the recipient after the completion of all recipient grant activities shall be used by the recipient for community or economic development activities eligible for assistance under Title I of the Housing and Community Development Act of 1974, so specified in the Commonwealth of Kentucky's Community Development Block Grant Eligible Activities Policy Statement.

Note 3 - The federal expenditures for Community Development Block Grant – Phase 9B Water Extension Project include grants to subrecipients as follows:

<u>Subrecipient</u>	<u>CFDA Number</u>	<u>Pass-through Grant Amount</u>
Harrison County Water Association	14.228	\$452,500

CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

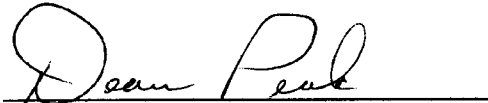
HARRISON COUNTY FISCAL COURT

For The Fiscal Year Ended
June 30, 2002

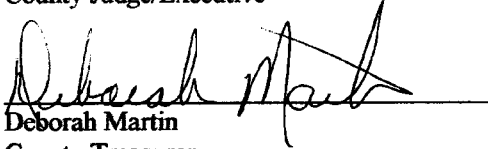
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
HARRISON COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2002

The Harrison County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

A handwritten signature in cursive script, appearing to read "Dean Peak", written over a horizontal line.

Dean Peak
County Judge/Executive

A handwritten signature in cursive script, appearing to read "Deborah Martin", written over a horizontal line.

Deborah Martin
County Treasurer